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ADVANCE LETTER ON

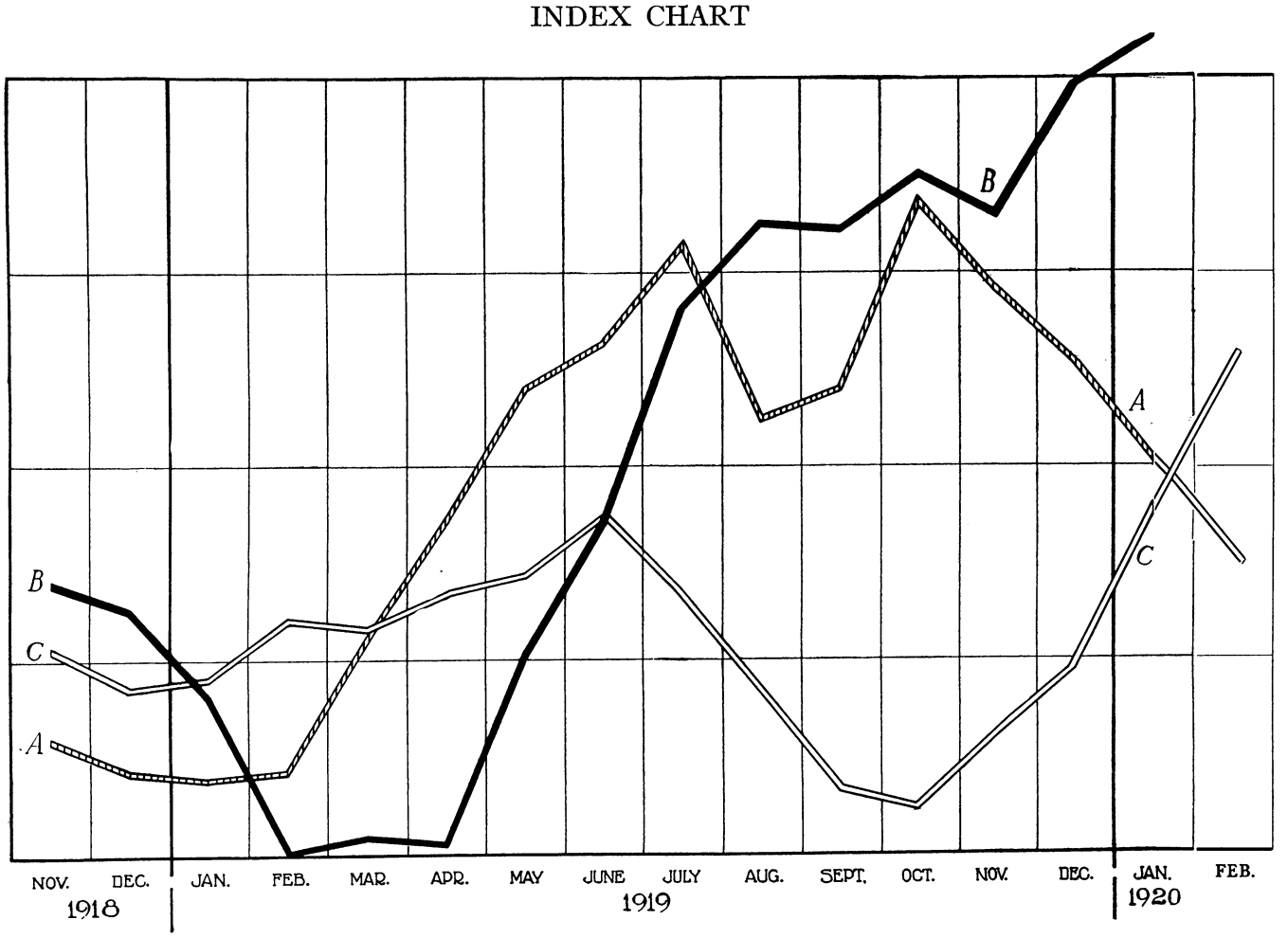
# GENERAL BUSINESS CONDITIONS

*March 3, 1920*

THE continued decline during the past month of speculation, represented by curve A, and the continued increase of rates on commercial paper, represented by curve C, give new support for our forecast that a period of liquidation in commodity markets is not far distant. The data for February confirm the conclusion stated in our January and February publications that " we are now in that phase of the business cycle characterized by financial strain, liquidation of securities, and a check to the upward movement of commodity prices and business activity."

How far the liquidation will go and how severe the process will be cannot be determined with certainty at this time, although, as we have said, accumulating evidence indicates that the turn is not far distant. Our belief still is that, in view of the considerations mentioned in the February number, recessions in prices will not go to great lengths and the process may not be very severe. Much depends on the federal reserve system. Excess reserves are now being depleted as a joint result of expansion of loans and export of gold and silver. The course of gold exports during the next few months will have an important bearing on the situation. It is reported that South America and the Orient are selling francs and sterling in New York and taking gold. New York banks, however, are not obliged to continue such purchases since the United States is in a strong position in international finance. It is not improbable that the outflow of gold will correct itself naturally under the compulsion of increasing stringency in domestic markets.

INDEX CHART




GROUP A — SPECULATION: New York Bank Clearings, Shares Traded on the New York Stock Exchange, Price of Industrial Stocks.
GROUP B — BUSINESS: Bank Clearings Outside New York City, Bradstreet's Price Indices.
GROUP C — BANKING: Rate on 4–6 Months Commercial Paper, Rate on 60–90 Day Commercial Paper.

## SPECULATION

In February our forecaster, curve A, decreased for the fourth consecutive month. Of the three series of the speculative group two, New York clearings and the price of industrial stocks, decreased; while the third, shares traded on the New York Stock Exchange, increased from the low volume in January and December. The continued decline of curve A furnishes new evidence forecasting a decline of commodity prices and business activity in the near future.

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COMBINED FEDERAL RESERVE BANKS

(UNIT: $1,000,000)

| Date | Total earning assets | Total Bills on Hand | | | Net deposits | Federal reserve notes in actual circulation | Total cash reserves | Ratio of total cash reserves to the sum of net deposits and federal reserve notes in actual circulation | Excess reserves |
|---|---|---|---|---|---|---|---|---|---|
| | | Bills discounted | | Bills bought in open market | | | | | |
| | | Secured by government war obligations | All other | | | | | | |
| **1920** | | | | | | | | | |
| January 2 | 3,182 | 1,484 | 747 | 575 | 1,851 | 2,999 | 2,121 | 43.7 | 273 |
| " 9 | 2,984 | 1,352 | 728 | 575 | 1,716 | 2,914 | 2,102 | 45.4 | 335 |
| " 16 | 3,023 | 1,351 | 749 | 576 | 1,819 | 2,850 | 2,104 | 45.1 | 328 |
| " 23 | 3,033 | 1,386 | 767 | 576 | 1,818 | 2,844 | 2,088 | 44.8 | 314 |
| " 30 | 3,039 | 1,458 | 716 | 561 | 1,806 | 2,851 | 2,074 | 44.5 | 301 |
| February 6 | 3,061 | 1,452 | 752 | 555 | 1,766 | 2,892 | 2,055 | 44.1 | 280 |
| " 13 | 3,153 | 1,470 | 824 | 543 | 1,787 | 2,959 | 2,053 | 43.2 | 243 |
| " 20 | 3,186 | 1,525 | 833 | 532 | 1,786 | 2,977 | 2,035 | 42.7 | 219 |
| " 27 | 3,279 | 1,573 | 881 | 531 | 1,885 | 3,020 | 2,083 | 42.5 | 216 |
| **1919** | | | | | | | | | |
| February 28 | 2,340 | 1,668 | 212 | 277 | 1,797 | 2,472 | 2,189 | 51.3 | 571 |

Last month New York clearings amounted to $18,140,000,000 compared with $23,210,000,000 in January. This is a decrease of 22 per cent, which is precisely the normal seasonal movement.

The average price of twenty industrial stocks was $94.40 in February compared with $104.60 in January and $105.60 in December; the price of twenty railroad stocks was $72.50 compared with $74.90 in January and $75.20 in December. On March 1 industrials and rails averaged $92.29 and $75.04 respectively. In 1919 the highest monthly averages were $113.90 in October for industrials and $88.70 in June for rails.

The number of shares sold on the New York Stock Exchange during February was 21,960,000 compared with 19,880,000 in January. Previous to February there was a steady decline since October 1919.

In February the volume of sales was 59 per cent, the average price of industrials 83 per cent, and the average price of rails 89 per cent of the October figures. These percentages indicate that the requirements for funds on the New York Stock Exchange are at least 15 or 20 per cent below those in October.

## BANKING

The upward movement of curve C, representing rates on commercial paper, began in November and has continued at a very rapid pace in January and February. A tightening of the money market has as its correlatives, first, a bear market in securities and, second, liquidation in commodity markets. Therefore, the continued increase of curve C in February gives strong support to the forecast indicated by curve A that there will be a decline in commodity prices and business activity beginning in the next few months.

The average rate in New York on sixty-to-ninety day commercial paper in February was 6.44 per cent compared with 6.00 per cent in January; the average rate on four-to-six months paper was 6.62 per cent compared with 6.06 per cent in January. Usually there is a marked seasonal decline of rates on commercial paper in January and February. This year, instead of a normal *decline* of about one-tenth since December, there has been an *increase* of about six-tenths in these rates.

In February the Federal Reserve Board approved increases in the discount rate from $4\frac{3}{4}$ per cent to 5 per cent on notes secured by United States Certificates of Indebtedness so that the ruling minimum rate of discount for bills secured by government war obligations and that for bankers' acceptances is 5 per cent, that for commercial paper is 6 per cent, and that for bills secured by war finance corporation bonds is 7 per cent.

Between January 30 and February 27, 1920 earning assets of the combined federal reserve banks increased $240,000,000, bills on hand increased $250,000,000, net deposits increased $79,000,000, and federal reserve notes in actual circulation increased $169,000,000. During the same month total cash reserves increased from $2,074,000,000 to $2,083,000,000, but the ratio of total cash reserves to demand liabilities decreased from 44.5 per cent to 42.5 per cent, and excess reserves declined from $301,000,000 to $216,000,000. Since January 9, 1920 the reserve position of the combined federal reserve banks has steadily grown weaker.

The decrease of the reserve ratio and excess reserves since January 9 has been due to two causes: the increase of net deposits and notes, amounting to $169,000,000 and $106,000,000 respectively and, to the decrease of reserves, amounting to $19,000,000. A portion of the increase in net deposits may be due to delays in transportation resulting in a slower turnover of goods. The increase of notes is partly explained by large shipments to Cuba where federal reserve notes are used as currency on the sugar plantations. The decrease in reserves is primarily due to gold exports.

During the period from January 2 to February 13 total cash reserves decreased $68,000,000. During approximately the same period, January 1 to February

SIGNIFICANT WEEKLY FIGURES SHOWING TREND IN JANUARY AND FEBRUARY 1920

| Series | Unit | Week Ending | | | | Week Ending | | | | January 1920 | February 1920 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Jan. 10 | Jan. 17 | Jan. 24 | Jan. 31 | Feb. 7 | Feb. 14 | Feb. 21 | Feb. 28 | | |
| Price of Twenty Industrial Stocks,* Average | Dollars | 107.3 | 103.1 | 102.6 | 103.9 | 97.93 | 93.08 | 94.32 | 91.36 | 104.6 | 94.4 |
| Price of Twenty Railroad Stocks,* Average | Dollars | 75.8 | 74.8 | 74.4 | 74.3 | 72.32 | 69.49 | 73.54 | 74.43 | 74.9 | 72.5 |
| Shares Traded on New York Stock Exchange | Thousand shares | 5,425 | 5,796 | 3,159 | 3,586 | 6,568 | 5,261 | 5,641 | 5,384 | 17,966‡ | 22,854† |
| New York Bank Clearings | Million dollars | 5,522 | 5,331 | 5,161 | 4,570 | 5,241 | 3,928 | 5,036 | 4,083 | 20,584‡ | 18,288† |
| Bradstreet's Food Index (31 articles) | Dollars | 5.24 | 5.19 | 5.18 | 5.10 | 5.04 | 5.03 | 5.00 | .... | 5.18‡ | .... |
| Outside Bank Clearings (49 cities) | Million dollars | 4,345 | 3,976 | 3,898 | 3,461 | 3,584 | 2,989 | 3,862 | .... | 15,680‡ | .... |
| Rate on Choice Double Name, 60–90 Day Paper | Average per cent | 6 | 6 | 6 | 6 | 6⅛ | 6⅜ | 6⅝ | 6⅝ | 6 | 6½ § |
| Rate on Bankers' Acceptances, 30–90 Day, Eligible | Range per cent | 4¾–5⅜ | 4¾–5⅜ | 5–5⅝ | 5⅛–5¾ | 5⅛–5¾ | 5¼–5⅞ | 5¼–5⅞ | 5¼–6½ | 4¾–5¾ | 5⅛–6½ |
| Rate on Call Loans,* Renewal | Average per cent | 7 | 9 | 6½ | 9 | 15¼ | 9¾ | 6⅜ | 8¼ § | 8 | 9⅞ § |

* New York market. † For four weeks ending Feb. 7–28, 1920. ‡ For four weeks ending Jan. 10–31, 1920. § Preliminary.

10, net gold exports from the United States amounted to $51,466,000, distributed as follows:—

| | Imports | Exports |
|---|---|---|
| Europe | $22,000 | $146,000 |
| Canada | 11,298,000 | 655,000 |
| Central and South America | 765,000 | 30,762,000 |
| The Far East | ..... | 32,207,000 |
| Other | 219,000 | ..... |
| | $12,304,000 | $63,770,000 |

The situation, then, is that the United States is losing forty or fifty millions of gold per month, mainly to Argentina, Hongkong, China, and Japan. Meanwhile, bills discounted by the combined federal reserve banks are increasing. Due to these two influences the reserve ratio has declined steadily since January 9th. It appears *prima facie* that the decrease in actual cash reserves was checked on February 20; during the week following there was an increase of $48,000,000. The fact is, however, that the increase was entirely in "legal tender notes, silver, etc.," due to a deposit of $50,000,000 in silver by the government. This deposit was made preparatory to an export of silver. Consequently, a decline in reserves through export of silver next week or later may be expected.

## Business

The data for curve B are not available at this writing. The indications are, however, that bank clearings outside New York City will not show a decrease for February greater than the usual seasonal decline of 16 per cent. There are some indications that commodity prices reached their turning point in February, although recessions that have occurred are not great.

There are a number of straws indicating that a turn in business is not far distant. For instance, certain manufacturers notice in acknowledgments of receipt of goods that various complaints are being made concerning color, texture, etc. The tone of customers' letters seems to be quite different from that of recent months. Certain dealers feel that retailers are preparing the ground for the return of goods that do not move readily. Business men appear decidedly less confident now than a month ago of the continuation of active business and a sellers' market.

W. M. P.

HARVARD UNIVERSITY COMMITTEE ON ECONOMIC RESEARCH
CHARLES J. BULLOCK, Chairman WARREN M. PERSONS, Editor
WADSWORTH HOUSE, CAMBRIDGE 38, MASS.